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No. 73-187

In the Supreme Court of the United States

OCTOBER TERM, 1973

KEWANEE OIL COMPANY, PETITIONER

v.

BICRON CORPORATION, ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

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OPINIONS BELOW

The opinion of the United States Court of Appeals for the Sixth Circuit (Pet. App. A1–A25) is reported at 478 F. 2d 1074. The findings and conclusions of the United States District Court for the Northern District of Ohio (App. 51–90) are not reported.

JURISDICTION

The judgments of the court of appeals were entered on May 10, 1973 (Pet. App. A26–A28). The petition for a writ of certiorari was filed on July 27, 1973, and was granted on October 9, 1973 (414 U.S. 818). The jurisdiction of the Court rests on 28 U.S.C. 1254(1).

QUESTION PRESENTED

Whether the state trade secret law implemented here by the permanent injunctive relief granted by the district court is preempted because it interferes with the accomplishment of the purposes and objectives of the federal patent system or the national policy favoring competition.

INTEREST OF THE UNITED STATES

This brief is submitted in response to this Court's order of October 9, 1973, inviting the United States to submit a brief presenting its views in this case. The United States is responsible for administering and enforcing the Acts of Congress involved in this case, particularly the patent statute, 35 U.S.C. 101, *et seq.*

STATEMENT

This is a diversity case, brought by petitioner, Kewanee Oil Co., against the respondents, six of its former employees and Bicron Corp. (a corporation formed by four of the individual respondents); the suit was for damages and injunctive relief in respect of the employees' use of trade secrets discovered by Kewanee—processes for making industrial crystals.[1] Kewanee alleges that it is a leader in the field of making such crystals by reason of the secret technology it has developed, and that its competitive

[1] The synthetic crystals involved are technically known as sodium iodide thallium activated scintillation crystals. They are used in radiation detectors employed for geophysical surveys of uranium and oil, clinical measurement of radio isotopes and space exploration (App. 53). They were discovered and patented by Professor Robert Hofstadter of Princeton University. This patent has long since expired.

position would be irreparably damaged if this information were utilized by a competitor (App. 12). Kewanee is the largest firm in the field; it has three competitors in the United States,[2] and Bicron unsuccessfully sought to become the fourth. Kewanee is the only firm that has been able to make the large diameter (17-inch) crystals to which the secrets relate.

The district court found that of Kewanee's 40 alleged trade secrets (App. 59–60) 20 actually were trade secrets (App. 82–83). It also found that respondents had not yet used or disclosed the secrets, but that there was an imminent danger that the ex-employees would begin commercially exploiting the secrets in competition with petitioner (App. 89), contrary to their "confidential relationship, and * * * duty of loyalty and fidelity to their employer."[3]

The district court did not award damages, but it found an injunction necessary. The court balanced two considerations in formulating relief. On the one hand, it said, "it is inevitable that some of the knowledge acquired while in the former employment should be made available to the new employer, and courts will not deprive the employee of the right to use the skill

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[2] App. 54. There are also one or two competitors in Japan, one in England, and one in France (*ibid.*).

[3] App. 87. Although the findings indicate that some of the defendants entered into agreements with petitioner not to use petitioner's "inventions or discoveries or its secret or confidential information, knowledge or data" (App. 69, 70, 72, 73), and all the individual defendants agreed not to disclose petitioner's secrets (App. 67, 69, 70, 73), the district court placed no stress on this. Instead, it relied on the principle of Ohio law creating an implied agreement or obligation by employees not to use their former employers' trade secrets (App. 87–88).

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he developed through the years." On the other hand, "the courts seek to enforce increasingly high standards of fairness or commercial morality and to protect the owner of information obtained through the ingenuity and effort of its employees, and its expenditures of time and money" (App. 89–90). The decree permanently enjoined the respondents from using the secrets, unless they subsequently became generally known by reason of petitioner's choice to release them or by other lawful means.[4]

On cross appeals, the court of appeals reversed the judgment, solely on the basis of preemption under the decisions of *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, and *Lear, Inc.* v. *Adkins*, 395 U.S. 653. In so ruling, the court appears to have stressed these facts: The processes were patentable types of subject matter, in that 35 U.S.C. 101 permits the grant of a patent on novel and inventive processes of making industrial crystals (Pet. App. A6–A7). Petitioner chose not to apply to the government for a patent (or patents) on the processes; rather, it decided to exploit them secretly for commercial purposes, and it did so for longer than the one-year grace period the patent statute provides "for an inventor to make up his mind whether or not to file an application for patent" (35 U.S.C. 102(b); H. Rep. No. 961, 76th Cong., 1st Sess., p. 1; S. Rep. No.

[4] The injunction provided that the defendants were not to "be restrained by this injunction from using any trade secret of plaintiff after it has been released to the public by plaintiff, such as by the issuance of a patent, or has otherwise become generally available to the public, or other members of the industry, or is obtained by defendants from sources having the legal right to convey such information" (App. 94).

876, 76th Cong., 1st Sess., p. 1). Petitioner did so because it considered the limited seventeen-year statutory patent monopoly, as compared with the possibility of perpetual trade secret protection, to be an insufficient reward to induce it to disclose and (at the end of the term of the monopoly) dedicate the processes to the public (Pet. App. A7).[5]

INTRODUCTION AND SUMMARY OF ARGUMENT

It is the view of the United States that the decision of the Court of Appeals for the Sixth Circuit should be reversed because state trade secret law is not preempted by federal patent law. There is a view within the government, however, that federal law does in some measure oust state law in this field and that this case should be remanded for additional findings of fact.

Since each of these positions is somewhat different from any so far presented to this Court, we think it may be useful to set out both as well as the reasons

[5] The record discloses (Tr. 1265–1267) that in the case of one of petitioner's methods (App. 59, item 1(c)) it had applied for a patent and the Patent Office advised petitioner that the patent would be granted, but petitioner decided instead to "abandon" the application, thereby keeping the disclosure in the application from being made public. See 37 C.F.R. 1.14(b); *Sears* v. *Gottschalk*, 178 U.S.P.Q. 33, 34–35 (E.D. Va.) (appeal pending). The district court held, however, that this "secret" was not protectable, because petitioner had failed to maintain secrecy with sufficient care. See Pet. Br. 35, n. 11. In another instance, petitioner's Product Group Manager (App. 6, 70) recommended that it secure a patent on a method of preparing and encapsulating crystals (App. 60, item 4(c)(ii)), and filed a patent disclosure with petitioner's legal department, but petitioner decided against applying for a patent and in favor of keeping the process a trade secret (Tr. 1207–1208, 1262–1264, 1265–1266). This secret was included in the injunction granted by the district court (App. 83, 93).

why we ultimately conclude that state trade secret law is not preempted and should control this case. Before doing so, however, we set out the common ground for both positions: the question before the Court is open, not having been settled by any prior decision.

The view within the government that federal law preempts some aspects of state trade secret law is based on the contention that some applications of trade secret law interfere with the policy of the patent system to promote scientific and technological progress by encouraging disclosure of patentable inventions, and that certain other applications of trade secret law interfere with the national policy in favor of free competition. Interference with the policy of the patent system occurs, in this view, because reliance on trade secret law causes patentable inventions to be diverted from the patent system. Such diversion, it is contended, should be tolerated only if it resulted from a reasonable, good faith belief that the protected secret was unpatentable. It is further urged, under this view, that trade secret protection of technology that is not "novel" within the meaning of the patent code is preempted because such technology is in the public domain under the national policy favoring competition. There is no preemption, under this view, of trade secret protection of novel advances in technology that are below the inventive level under the patent code, so long as state protection, in this or any other application of the trade secret laws, is limited in duration so as not to exceed either the time required to rediscover the secret independently ("head-

start") or the time during which the secret does not actually become known.

The position of the United States, however, is that state trade law is not preempted by federal patent or antitrust law. Like state laws enforcing partnership arrangements, trade secret laws perform a useful economic function by permitting the possessor of commercially valuable secret information to share it with others for effective economic use without lessening its value to him. This does not reduce competition since the persons to whom the secret is divulged in the course of their employment or other contractual relationship would not, absent that relationship and the disclosure incident to it, be in a position to compete in the utilization of the secret. Moreover, state trade secret law has for many decades existed side by side with the federal patent and antitrust laws, and there has been no showing that this has interfered with the policies of those federal laws. The federal patent laws merely offer, and do not compel, the exchange of a 17-year monopoly for disclosure of patentable inventions; and there is, in any event, no showing in this case or adequate basis for presuming that a substantial diversion of patentable inventions from the federal patent system is caused by state trade secret laws. Nor is there any basis either shown in this record or otherwise known to us for concluding whether, in its overall effects, state trade secret law enhances or inhibits the competitive process. In these circumstances, and in light of the further considerations (1) that interjecting complex issues of federal preemption would unduly complicate state trade secret litigation

and thus greatly diminish the value of trade secrets and (2) that Congress has repeatedly demonstrated full awareness of the trade secret system and has never indicated disapproval of any aspect of it, we submit that it would be unwarranted at this late date to hold that an implied preemption destroys the many commercial interests and rooted expectations that have developed in reliance on the long-existing body of state trade secret law.

ARGUMENT

I

THE ISSUE IS NOT CONTROLLED BY PRIOR DECISIONS OF THIS COURT

None of the three decisions of this Court dealing with preemption of state law in the area of patents and copyrights controls the outcome of this case. The decisions are *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225; *Lear, Inc.* v. *Adkins*, 395 U.S. 653; and *Goldstein* v. *California*, 412 U.S. 546.

Sears, Roebuck & Co. v. *Stiffel Co.*, 376 U.S. 225, was an action by an owner of a design patent on a pole lamp both for patent infringement and unfair competition. The patented design in issue had been manufactured and sold by the plaintiff. The defendant, aware of the commercial success of the pole lamp design, had copied it. The copying did not involve the use of any information obtained from the plaintiff other than by the examination of the freely available lamp itself. The Seventh Circuit held that although the design patent on the pole lamp was invalid for

want of the required inventiveness, the plaintiff was entitled to an injunction under the Illinois law of unfair competition. This Court reversed, holding that state law which precluded the copying of an uncopyrighted and unpatented work which had, in the copyright sense, been published was contrary to the federal patent and copyright statutes. The state law of unfair competition would, in effect, have provided the full equivalent of patent protection indefinitely for a design which federal law held not to be patentable. There was no issue in *Sears* and the companion case of *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234, of state relief against the use of commercial information obtained by any means other than the copying of subject matter freely available. The present case, on the other hand, involves the taking by plaintiff's former employees of confidential information in violation of their fiduciary obligations under state law. The protection afforded, being against only a few persons and lasting only until independent discovery of the secret or other lawful disclosure, is not comparable either to patent protection or to the protection of state law in *Stiffel*.

Lear, Inc. v. *Adkins*, 395 U.S. 653, was an action by a patent licensor for royalties. The California state courts had held that under California law the licensee was not entitled to defend the action on the ground that the patent was invalid. This Court reversed, holding that the federal law that "all ideas in *general circulation* be dedicated to the common good unless they are protected by a valid patent" (395 U.S. at 668, emphasis supplied) overrode the state law of contracts. The court emphasized the federal interest in

freeing commerce from the clog of claimed federal monopolies by giving patent licensees—who "may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery" (*id.* at 670)—the right to challenge the validity of the licensed patents. Adkins had argued, however, that even if licensee estoppel was generally unavailable, the defendant licensee should not be allowed to challenge the validity of his patent because the license had not only conferred the right to the patent, but also had given advance access to the information contained in the patent application. It was in connection with this argument that the Court observed that "[a]t the core of this case, then, is the difficult question whether federal patent policy bars a State from enforcing a contract regulating access to an unpatented secret idea" (395 U.S. at 672). The Court resolved this issue by holding that the plaintiff was not entitled to recover any royalties after the date the patent issued, and specifically refusing to rule on the claim for contractual royalties accruing before the patent issued (395 U.S. at 674–675). This one issue, unresolved in *Lear,* involving state protection of unpatented subject matter, is related to the question now before the Court.

The only other decision of this Court involving preemption in the copyright and patent area is *Goldstein* v. *California,* 412 U.S. 546. That case is important because it made clear that the preemption doctrine as to copyrights is a statutory, not a constitutional doctrine. In deciding whether or not state law relief for the piracy of sound recordings was barred by

federal law, the Court looked to the purposes and effects of the copyright statute to determine whether or not Congress, in denying copyright protection to sound recordings, had also barred state protection. The Court concluded that it had not. Similarly, in this case, the Court must look to the purposes and effects of the patent statute to determine whether or not Congress, in providing for patent protection, has limited state trade secret relief.

II

THE ARGUMENT FOR PARTIAL PREEMPTION AND REMAND OF THIS CASE FOR ADDITIONAL FINDINGS

The view within the government that federal law preempts some but not all state trade secret law rests upon the contention that one aspect of trade secret law interferes with the objective of the patent system to promote scientific and technological progress by encouraging and offering an incentive for the disclosure of patentable technological advances, and that another aspect interferes with the national policy in favor of free competition. The argument supporting this view is as follows.

A. THE POLICIES AND OBJECTIVES OF THE FEDERAL AND STATE SYSTEMS DIFFER, WITH THE CONSEQUENCE THAT THEIR SIMULTANEOUS OPERATION MAY LEAD TO CONFLICT

The patent system is designed to promote scientific and material progress. To that end, inventors are encouraged to disclose their discoveries in return for a monopoly of limited duration. The various state trade secret laws resemble the patent system in their mode of operation because they protect the competitive ad-

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vantage of one who develops commercially valuable information. But the legal theories on which the protected interests are based are different, as are the policies of the two systems. The patent laws create a property right, while trade secret laws merely protect a relational interest between the parties. The policy of the patent laws is the promotion of technological progress. To the extent that any policy has been articulated for trade secret laws, it has usually been the protection of judge-made principles of commercial morality (see, *e.g.*, App. 90). These differences in legal theory and policies may lead in some circumstances to interference by the state law with federal objectives.

Such interference may occur in two ways. First, in terms of "classic" preemption doctrine (see *City of Burbank* v. *Lockheed Air Terminal, Inc.*, 411 U.S. 624; *Perez* v. *Campbell*, 402 U.S. 637, 649–650; *Hines* v. *Davidowitz*, 312 U.S. 52, 67), a federal regulatory scheme may so occupy the field that the concurrent operation of a state scheme detracts from or interferes with the full accomplishment of the federal objective. Second, because the patent statute forbids the grant of a patent for innovations relating to certain types of subject matter, interference may occur if a state law precludes competition in an area set aside by Congress for free competition, thereby disturbing the economic balance Congress adjusted to optimize the national benefit. Cf. *San Diego Bldg. Trades Council* v. *Garmon*, 359 U.S. 236; *International Assn. of Machinists* v. *Gonzales*, 356 U.S. 617.

B. STATE TRADE SECRET PROTECTION OF PATENTABLE INVENTIONS INTERFERES WITH THE DISCLOSURE OBJECTIVE OF THE PATENT STATUTE AND IS THEREFORE PREEMPTED

1. Trade secret laws divert a significant number of inventions away from the patent system, and thus interfere with its objectives

Trade secret protection is an alternative to patent protection for patentable discoveries. Therefore, the two systems compete. If an inventor elects trade secret protection of a patentable invention, the public loses the various benefits of the disclosure of his innovation, which the patent laws require as the price of a 17-year monopoly. Disclosure permits exploitation of the invention for noncommercial scientific purposes (which does not constitute infringement), provides a stimulus to others to develop improvements or to "invent around" the patent, and enables the public, upon expiration of the patent term, to make free use and secure full commercial exploitation of the patented invention. Because "[t]he free flow of both basic and applied scientific knowledge is absolutely essential to the most rapid rate of progress and maximum utilization of our scientific resources," the *raison d'etre* of the patent system is to foster such disclosure—"to bring forth the new knowledge" (*Graham* v. *Deere Co.*, 383 U.S. 1, 9).

Since election by inventors to rely on trade secret law reduces disclosure by diverting inventions away from the patent system, technological progress is slowed, contrary to the goal of federal patent policy. The argument that others are free to make the same invention and secure a patent (despite the earlier invention, see 35 U.S.C. 102(g)) assumes, without

warrant, that another will reinvent the secret within a reasonable time and that the second inventor will not also choose secrecy rather than patent protection.

Federal policy does not merely offer the patent as an option, but favors recourse by an inventor to that system. In establishing the patent system, Congress, presumably, at least hoped that inventors would utilize the system and thus disclose their inventions to the public. Moreover, the statutory (35 U.S.C. 102(b), 102(c), 102(g)) and judicial (*e.g., Kendall* v. *Winsor,* 21 How. 322, 328–329; *Pennock* v. *Dialogue,* 2 Pet. 1) disfavor of inventors who practice their invention in secret and then apply for a patent indicates a desire to encourage recourse to the patent law.

Preemption is also supported, although less urgently, by the need for uniformity in the regulation of the subject. Since the time of Madison (*The Federalist,* No. 43 (Cooke ed., 1961)), it has been recognized that the separate states cannot effectively provide for the protection and promotion of invention and that the subject admits of only one system of regulation. See *Sears, Roebuck & Co.* v. *Stiffel Co.,* 376 U.S. 225, 228. *Goldstein* v. *California,* 412 U.S. 546, held that uniformity was not required in the regulation of copyright, with respect to subject matter which Congress had left outside the federal copyright statute, for it involved only matters "of purely local importance and not worthy of national attention or protection" (*id.* at 558); but the Court carefully confined its ruling to the copyright laws, and appears to have been unanimous in the view that different principles apply in the case of patent law. But in this case the industrial

technology and the industries using it are of more than merely local importance; these processes are within the core area of federal patent regulation (statutory subject matter within 35 U.S.C. 101; see Pet. App. A7). This Court was unanimously of the view in *Stiffel* and *Goldstein* (412 U.S. at 569–570) that, in the case of patentable inventions, federal law has occupied the field.

Petitioner argues (Br. 26–28) that the adverse effects of trade secret law on patent system objectives are ameliorated because trade secret injunctions issue against only a limited segment of the public, such as unfaithful employees, while a patent will be enforced against the world. It is said that trade secret relief is thus not fully "the equivalent of a patent monopoly" (*Stiffel, supra,* 376 U.S. at 233), and should not be subject to federal preemption. The conclusion does not follow.

First, state law need not provide the complete equivalent of patent protection to interfere with the accomplishment of the objectives of Congress. In fields that Congress has fully occupied (as is the case with respect to patents, *Goldstein, supra,* 412 U.S. at 569 (majority opinion), 573 (dissenting opinion of Mr. Justice Douglas), 576–579 (dissenting opinion of Mr. Justice Marshall)), any significant interference will lead to preemption. See, *e.g., Rice* v. *Santa Fe Elevator Corp.,* 331 U.S. 218, 236. Second, the difference in relief may be illusory because those subject to the perpetual injunction may be the principal persons likely to practice the invention. Indeed, the same argument was made for the doctrine of licensee estoppel in *Lear,*

Inc. v. *Adkins,* 395 U.S. 653, 670. The only persons estopped were those few who had promised the patentee not to challenge the patent's validity. The Court rejected the argument because the estopped licensee was often the person most likely to provide competition. See also *Scott Paper Co.* v. *Marcalus Mfg. Co.,* 326 U.S. 249, 257.

It may be conceded that complete preemption would be unduly harsh where the originator of a patentable trade secret is unable to determine whether he can secure a patent or erroneously believes his innovation obvious. Such cases may be dealt with, however, by an exception to preemption for the inventor who shows that he elected to rely on trade secret law, rather than seek a patent, in a reasonable, good faith belief that his innovation was unpatentable. The present case should be remanded to give petitioner the opportunity to show that it elected to rely on trade secret rather than patent protection in a reasonable, good faith belief that its processes were unpatentable.

There are two important premises of this preemption analysis. The first is that state trade secret law significantly diverts inventions from the federal patent system. If there is more than an insignificant amount of diversion, the disclosure objective of the patent law will not be fully accomplished and there will not be the requisite uniformity of regulation. If, on the other hand, there is only an insignificant degree of diversion, there will be "a mere possibility of inconvenience in the exercise of [federal] powers" (*Goldstein, supra,* 412 U.S. at 555, quoting *The Federalist,* No. 32), and there will be no need for preemption.

The second premise is that a change in the degree of availability of state protection would have an impact on the degree of diversion of inventions, whatever it is, away from the patent system. Like the record in *Lear, Stiffel, Perez,* and other preemption cases, the record in this case is anecdotal and does not contain pertinent general industrial data. Even if it did, however, the credibility and value of such data for the purpose of general policymaking would be suspect. The Court has never sought to determine preemption cases on the basis of quantified data. On the basis of common-sense plausibility, the figures proffered in the *amicus curiae* briefs (*e.g.,* U.S. Chamber of Commerce Br., at 16–20), and the published writings of patent law and trade secret experts (see n. 21, *infra,* p. 34), it seems obvious and inevitable (to those within the government taking the position discussed here) ~~and~~ that there is presently taking place a great deal of diversion of technology from the public patent system to the privacy of state trade secrecy systems, with a market value of the technology from millions to billions of dollars. At the same time, it seems obvious (to those same analysts) that lesser or greater availability of state law protection would tend to decrease or increase, respectively, the flow of inventions into the state system rather than the federal system. It would seem to follow, in this view, that such diversion must be stopped, in the name of preemption to protect federal policies dominating the field (cf. *Sola Electric Co.* v. *Jefferson Electric Co.,* 317 U.S. 173, 176).

2. Preemption based on the diversion rationale is limited to patentable inventions

The court of appeals considered one of the most significant factors in determining preemption to be the nature of the subject matter protected by the state trade secret law, in terms of the patent law. The instant case involves processes for making crystals that are used for scientific and industrial purposes (Pet. App. A2). If they are novel and inventive, they would, therefore, have been patentable when discovered, because they are "statutory subject matter" under 35 U.S.C. 101,[6] and counsel for petitioner so conceded below (Pet. App. A7). The category of subject matter sought to be protected here is thus clearly within the areas marked out both by the Constitution[7]

[6] That Section provides: "Whoever invents or discovers any new and useful process * * * may obtain a patent therefor, subject to the conditions and requirements of this title." The Section defines the various categories of "statutory subject matter"—machines, articles of manufacture, compositions, and processes for making or using them. Everything outside these categories is unpatentable "nonstatutory subject matter." See, *e.g.*, *Greenewalt* v. *Stanley Co.*, 54 F. 2d 195 (C.A. 3); *Guthrie* v. *Curlett*, 10 F. 2d 725 (C.A. 2); cf. *Gottschalk* v. *Benson*, 409 U.S. 63, 72.

[7] One of the partitions between preemption and nonpreemption is marked by whether the category of subject matter is outside the scope of "discoveries" and "inventions," as those concepts are used in Art. I, § 8, cl. 8. Nontechnical advances in human knowledge are not within the scope of the constitutional provision and therefore are not part of the federal patent scheme. Such advances as William Empson's discovery of the importance of ambiguity, Gerald Manley Hopkins' discovery of sprung rhythm, and Bach's "tempering" of the chromatic scale, are not subject to patent preemption. The same principle applies to customer lists, stock market quotations, and ways of transacting business.

and the Congress as eligible for protection under the patent laws.[8]

The court of appeals believed that trade secret protection was preempted because (1) these processes are statutory subject matter, and (2) they are now unpatentable, since petitioner used them commercially for more than one year. It found these to be sufficient conditions for preemption for three reasons. First, they established an election by petitioner to forego or forfeit the right to a patent in an attempt "to extend the com-

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[8] Petitioner argues that it was "capricious" for the court of appeals to base its rule of preemption on whether the type of subject matter was patentable, asserting that such a test would "implement no ascertainable societal policy" (Pet. Br. 44). To support this view, petitioner maintains that focusing on subject matter categories would make stock market information, customer lists, and natural or mathematical laws protectable, while machines that were unpatentable would be left unprotected under state or federal law. Petitioner concludes that Congress could not have intended such "irrational" and "absurd consequences" (*id.* at 44–45). This argument ignores both the constitutional limitations on the patent system and the policies of the patent laws.

The Constitution marks one boundary of preemption, as the preceding notes indicate, thus precluding patent clause preemption as to stock market information and customer lists. The statute marks another. The states may not grant exclusionary protection over subject matter that Congress deliberately left outside the patent statute but could have included if it so desired. In *Goldstein* v. *California*, 412 U.S. 546, the Court was unanimous on the point that failure by Congress to provide patent protection on certain technology was to be taken to reflect its judgment that free competition was to prevail. Compare *id.* at 569–570 with *id.* at 574 and *id.* at 576–579. For example, such things as laws of nature or mathematical principles seemingly could be protected as "discoveries" if Congress had desired to do so and if they were in a sufficiently tangible or concrete form to be "useful." That no patents are authorized

mercial monopoly of the invention beyond the 17 years granted by the Patent Laws" (Pet. App. A7). Second, by allowing petitioner "to exclude competition" by means of an injunction despite its forfeiture of patent rights, the state trade secret scheme would improperly grant petitioner "protection which he could not obtain under the laws of the United States" (Pet. App. A25). Finally, because such trade secret protection was potentially unlimited in duration, it conflicted with the public disclosure policy of the patent laws (*ibid.*).

The factors the court considered are relevant, but they do not constitute sufficient conditions for preemption. Moreover, the first reason set forth above, forfeiture, is immaterial to resolution of the case, while the second and third points require a more detailed examination to determine their materiality.

First, the fact that the processes are now unpatentable because more than a year of secret commercial

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to be granted on them reflects Congress' belief that the progress of science and the useful arts will be better promoted if the entire public is permitted to use such things freely, for they are the basic currency or mental tools of scientific and technological development. *Gottschalk* v. *Benson*, 409 U.S. 63, 67. Hence, trade secret protection of the Pythagorean Theorem, the binomial theorem, or the general theory of relativity, is as harmful to the federal policy of free access to basic tools of science as the grant of patents on them, and thus preempted. Such laws are preempted under the *Goldstein-Benson* test, in order to implement patent policy. Similarly, when Congress prohibited patents on otherwise patentable machines that are nuclear weapons (42 U.S.C. 2181), it did not leave it open for the states to grant alternative protection. The paradox and lack of ascertainable policy that petitioner has found is simply the consequence of insufficient discrimination in analysis to permit the policies at stake to be discerned.

use works a forfeiture[9] is not decisive. If the processes never were patentable in the first place, it is inappropriate to reason on the basis of an election to forego or forfeit the right to a patent; moreover, state law protection would not interfere with the public disclosure policy of the patent system. If the processes were patentable in the first place (under the standards of §§ 101, 102, and 103), then diversion of inventions from the patent system would have occurred in this case; but then the forfeiture argument would seem to be superfluous.[10] The only real significance of the lapse of the one-year period is that it conclusively establishes that petitioner was not still in the process of perfecting an application for patent.[11] If petitioner were, then the diversion theory would be

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[9] 35 U.S.C. 102(b) and (c): *Pennock* v. *Dialogue*, 2 Pet. 1; *Metallizing Engineering Co.* v. *Kenyon Bearing & Auto Parts Co.*, 153 F. 2d 516 (C.A. 2), certiorari denied, 328 U.S. 840; *Macbeth-Evans Glass Co.* v. *General Electric Co.*, 246 Fed. 695 (C.A. 6).

[10] This forfeiture is of the right to secure a patent. Hence, it does not follow, without more, that petitioner simultaneously forfeited all right to protection of any kind.

[11] Until 1939, the law allowed two years. In shortening the period to one year, Congress determined that this amount of time properly balanced the interests of the public, which "may have come to believe that the invention is open to anyone," and the inventor:

"In 1839, when the period of 2 years was first adopted, it may have been a proper length of time for an inventor to make up his mind whether or not to file an application for patent. Under present conditions 2 years appears unduly long and operates as a handicap to industry. Reduction of the period would serve to bring the date of patenting closer to the time when the invention is made, and would expedite applications, not only in their filing but also in their progress through the Patent Office."

S. Rep. No. 876, 76th Cong., 1st Sess., p. 1; H. Rep. No. 961, 76th Cong., 1st Sess., p. 1.

inapposite. Trade secrecy protection during the preparation or pendency of an application for patent is not inconsistent with the federal policy of attracting inventions into the patent system.[12] Moreover, because of the relative shortness of the pendency of applications before the Office,[13] the probable impact of such protection on uniformity of regulation is slight.[14]

Finally, it is not sufficient, although it is important, that the processes be statutory subject matter.[15] That fact alone does not establish that they were indeed patentable. If they were unpatentable for want of invention [16] or lack of novelty,[17] then once again not only is the forfeiture argument inapposite, but allowing state law protection would not interfere with the policies of the patent statute (although it might interfere

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[12] 35 U.S.C. 122, which protects confidentiality of pending applications, is consistent with this interpretation of the limits of the diversion rationale.

[13] The average pendency of applications is now 24 months and the Patent Office intends to reduce that figure to 18 months in two years. Gottschalk, Address Before Am. Pat. L. Assn., St. Paul, Minn., May 10, 1973. p. 5.

[14] The only possible effect on federal policy would be by lengthening the total period of protection. Cf. *Brulotte* v. *Thys* Co., 379 U.S. 29; *Stiffel*, *supra*, 376 U.S. at 231. See also *Lear*, *supra*, 395 U.S. at 682, n. 2 (concurring opinion of Mr. Justice White). It would seem that such effects may be outweighed by other policies and may be minimized in various ways. See, generally, Stern, *Antitrust Implications of Lear* v. *Adkins*, 52 J. Pat. Off. Soc. 213, 222–223 (1970) (discussion of pre-issuance royalties).

[15] 35 U.S.C. 101.

[16] 35 U.S.C. 103.

[17] *E.g.*, by reason of prior use or publication by another, 35 U.S.C. 102(a) and (b); *Electric Battery Co.* v. *Shimadzu*, 307 U.S. 5; *Smith* v. *Hall*, 301 U.S. 216.

with the national policy favoring competition, discussed in point C, *infra*). State law protection of patentable trade secrets is preempted, if and only if the availability of such protection diverts inventions from the federal system,[18] and such diversion occurs only in the case of discoveries which were patentable (under 35 U.S.C. 101, 102, and 103) when the trade secret claimant discovered them.

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[18] This is not to conclude, however, that state law is never and in no form to be applied to conduct involving patentable trade secrets. Such conduct could involve a paramount or preeminent state interest. In a case, for example, of burglary of a factory, theft of blueprints, or bribing an employee—to obtain patentable secret information—the state is free to punish the burglary, theft, or bribery, *as such*, just as it would punish any other such offense. Conduct of this type is at least potentially violent and is generally deemed highly disruptive—thereby satisfying the test of *San Diego Building Trades Council* v. *Garmon*, 359 U.S. 236, for nonpreemption. Moreover, the existence of such state remedies can hardly furnish a significant incentive to eschew the patent system, so that there would be only a peripheral or slight impact on federal policies if state law were permitted to operate concurrently in this respect. We therefore conclude that a general state law against all theft or burglary would not be preempted merely because the object of the theft or burglary was a set of secret blueprints or chemical formulations. Cases such as *United States* v. *Greenwald*, 479 F. 2d 320 (C.A. 6), certiorari denied, 414 U.S. 854 (No. 73–24), involving federal prosecutions under 18 U.S.C. 2314 for interstate transportation of stolen "goods, wares, or merchandise" are inapposite here because they could not raise a preemption question under the supremacy clause. It may be noted, however, that such cases involve the theft of documents or other tangible things embodying trade secrets, rather than the "theft" (if there can be one, see *Graham*, *supra*, 383 U.S. at 8, n. 2, quoting T. Jefferson) of ideas, as such. The federal scheme is thus seen to have been restricted by Congress to the same sphere suggested here as applicable to state action.

C. NATIONAL COMPETITION POLICY PREEMPTS STATE PROTECTION OF TECHNOLOGY THAT IS UNPATENTABLE BECAUSE NOT NOVEL BUT DOES NOT PREEMPT OTHERWISE PROPERLY LIMITED PROTECTION OF NOVEL TECHNOLOGY THAT IS BELOW THE INVENTIVE LEVEL

With respect to secrets that are unpatentable because they are not novel (35 U.S.C. 102) or because they are obvious (35 U.S.C. 103) but that fall within the subject matter of the patent statute (35 U.S.C. 101), national competition policy preempts a portion of the field but does not preempt the remainder so long as the relief granted by state courts is properly limited.

1. National competition policy preempts State trade secret protection of subject matter that is not novel under 35 U.S.C. 102

Protection of technology that is not "novel"—in the Section 102 sense that it has been disclosed previously in prior art (*e.g.*, magazine articles, patents, products on the market)—should be preempted because such non-"novel" technology is "in the public domain." Protection of technology that is novel but below the inventive level specified in Section 103 of the Patent Code (*i.e.*, obvious advances in the art) is not generally preempted. Deciding whether there is preemption in cases involving secrets which are unpatentable as obvious, however, requires consideration of other factors.

Though it has sometimes been held that a trade secret injunction may issue against the practice of a process already disclosed (*e.g., Franke* v. *Wiltschek,* 209 F. 2d 493 (C.A. 2)), such decisions are wrong for they permit the arrogation by the proprietor of the alleged secret of a portion of the public domain, at least of what 35 U.S.C. 102 (a) and (b) consider the public domain. The better

view is that expressed in more recent cases such as *American Gage & Mfg. Co.* v. *Maasdam,* 245 F. 2d 62 (C.A. 6), that decline such protection. Ideas, once they are set free, cannot become the property of anyone, *Lear, Inc.* v. *Adkins,* 395 U.S. 653, 665–666, 668, 670, 674, nor can a state, consistently with the supremacy clause, grant injunctions against the use of ideas which Congress intended to be free from restraint. *Scott Paper Co.* v. *Marcalus Mfg. Co.,* 326 U.S. 249, 255–257; *Goldstein* v. *California,* 412 U.S. 546, 559. State protection must be preempted lest it disturb the careful economic balance between competition and monopoly that Congress has struck.

The concept of arrogation of the public domain seems less applicable in the case of technology that is novel under Section 102 but obvious under Section 103. The interference with national competition policy is certainly less clear, at least if the state protection is carefully limited. The question of preemption should turn on a balance of the degree of interference with the federal plan of competition and monopoly and the possible state interests.

A variety of relatively insubstantial state interests have been articulated: states should be permitted to add to the federal patent incentive to research and development; state protection avoids the greater expense of self-help measures; states have an interest in higher standards of commercial morality. More persuasive than these is the basic interest in federalism which decrees that state law should not be disturbed unless it significantly interferes with federal policy. Cf. *Ferguson* v. *Skrupa,* 372 U.S. 726. In the

case of patentable secrets, there is interference in the very core area marked out for federal protection. But in cases concerning obvious technology, federal concern is relatively peripheral.

2. National competition policy preempts perpetual injunctions to enforce trade secret rights

State trade secret injunctions—whatever technology they are to cover—must under the national competition policy be limited, in any event, to an injunction for a period limited by both "headstart," the time required to rediscover the secret independently,[19] and the time during which the secret does not actually become known (see *Conmar Products Corp.* v. *Universal Slide Fastener Co.*, 172 F. 2d 150 (C.A. 2) (L. Hand, C.J.)). A perpetual injunction comes very close to a grant of patent protection for the secret, and that constitutes significant intrusion into the area of the federal patent statute warranting preemption. The injunction granted by the district court in this case was limited in duration to the actual period of continued secrecy. It should also have been limited by the period of projected secrecy, a period measured by determining how long it would have

[19] The concept of headstart is discussed in the separate opinion of Mr. Justice White in *Lear*, *supra*, 395 U.S. at 682, n. 2. Headstart and independent rediscovery are complementary notions. The length of a headstart is limited by the time independent rediscovery takes. Reverse-engineering time—the time it would take to determine how a product was made, once that product is on the open market—is a well-recognized form of measuring independent rediscovery time. See, *e.g.*, *Hampton* v. *Blair Mfg. Co.*, 374 F. 2d 969 (C.A. 8), certiorari denied, 389 U.S. 829; *Northern Petrochemical Co.* v. *Tomlinson*, 484 F. 2d 1057 (C.A. 7); Note, *The Trade Secret Quagmire—A Proposed Federal Solution*, 50 Minn. L. Rev. 1049 (1966).

taken to have rediscovered the technology independently—perhaps by means such as reverse-engineering—once products embodying that technology were available. The injunction should be limited in terms of both actual and projected secrecy periods and the case should be remanded for a determination of the projected secrecy period and a corresponding further limitation of the injunction.

The national competition policy favors this result for two reasons. First, such a result takes full account of the concept that technology in the public domain may be freely used, the *Conmar* limitation covering technology already in the public domain and the *Hampton-Northern Petrochemical* limitation covering when other technology can reasonably be expected to enter the public domain. Second, imposing such limitations on injunctive relief furthers the mobility of employees. See *United States* v. *Addyston Pipe & Steel Co.*, 85 Fed. 271, 279, 280 (C.A. 6), affirmed, 175 U.S. 211. See, also, *Wilson* v. *Clarke*, 470 F. 2d 1218 (C.A. 1); *E. W. Bliss Co.* v. *Struthers-Dunn, Inc.*, 408 F. 2d 1108 (C.A. 8); Blake, *Employee Agreements Not to Compete*, 73 Harv. L. Rev. 625 (1960). This policy of employee mobility is particularly important where, as here, the employees involved are likely to be scientists and engineers—often significant contributors to production.

III

THE UNITED STATES BELIEVES PREEMPTION IS NOT APPROPRIATE

The position of the United States is that state trade secret law may not properly be held preempted by federal patent law or by federal antitrust law. The

decision of the Court of Appeals for the Sixth Circuit should be reversed and the judgment of the district court reinstated.

We believe that the argument for preemption fails on its own terms and will attempt to show why. But we believe also that the nature of the arrangements protected by state law has generally been misperceived and that additional, useful perspective is gained by discussion of that question at the outset.

A. THE PROTECTION OF TRADE SECRETS IS AKIN TO STATE LAWS ENFORCING PARTNERSHIP ARRANGEMENTS AND SERVES A SIMILAR VALUABLE ECONOMIC PURPOSE

The state law at issue here permits one who possesses technological information unknown to others to disclose it to partners or employees upon the condition that they will not use the information so gained in an independent enterprise. A variety of legal doctrines may be and are used to explain the willingness of the law to enforce the condition or promise. Here a state law operates on the legal theory of fiduciary obligations. It is apparent, however, that the protection of fiduciary obligations is not an end in itself any more than the enforcement of promises is the ultimate end served by state court protection of partnership agreements or employment contracts. As in these latter instances, the value served by the state law in this case is the efficient organization and operation of economic enterprises. That is a legitimate state interest and one served by a wide variety of state laws and policies.

The possessor of commercially valuable information may find that its effective use requires more than

one person to practice it. A technique for growing large crystals can hardly be practiced by a single person on the scale that public demand would support. Similarly, a customer list may be a virtually useless asset unless its contents can be shared with an organization. Yet the person with such a valuable asset will realize that divulging it to others is likely to destroy its value since the others will then have an incentive to sell the knowledge or to leave and use it themselves. Hence the possessor of valuable information often requires that employees to whom it must be imparted promise, in return for employment, not to divulge the information or practice it independently.

State law that enforces such express or implied obligations makes possible the use of information on an economically efficient scale—to the benefit of the possessor, his employees, and the consuming public. The obligation that makes that efficiency possible through the economic cooperation of individuals very closely resembles Judge Taft's categories of valid ancillary restraints in *United States* v. *Addyston Pipe & Steel Co.*, 85 Fed. 271, 281 (C.A. 6), and has social value for the same reason cited by Taft (*id.* at 280):

> [W]hen two men became partners in a business, although their union might reduce competition, this effect was only an incident to the main purpose of a union of their capital, enterprise, and energy to carry on a successful business, and one useful to the community. Restrictions in the articles of partnership upon the business activity of the members, with a view of securing their entire effort in the common enterprise were, of course, only ancillary to the main end of the union, and were to be encouraged.

In the case of a trade secret, of course, the union of the parties does not reduce competition since the persons to whom the secret is divulged in the course of their employment would not, absent the union and the disclosure incident to it, have been in a position to compete. Should federal law be held to oust state enforcement of obligations of secrecy, the result will not be a flow of free information to the public. Those in possession of trade secrets will be unable to use them at the efficient scale of operation, to the detriment of the public, and there will be a similarly harmful decline in the incentive to develop and perfect commercially valuable information. The net impact will be injurious to the public in just the same manner as if state laws enforcing partnership arrangements or corporate charters were declared invalid, although the magnitude of the injury would be different.

To these observations it might be replied that the effects of preemption need not be deleterious since federal patent law is available to serve much the same function as state trade secret law. But that reply is not adequate. Patent law covers only part of the range of information that may be protected by trade secret law. A new rule that only that portion of state law is preempted that protects patentable information has a clarity in statement that will prove spurious in practice. The distinction between the patentable and the unpatentable is often difficult to perceive and the suggested rule would require the possessor of information to guess in advance what the Patent Office and the courts might ultimately conclude. Should he guess wrongly, in either direction, he would either acquire an

invalid patent in return for disclosing his information or he would divulge his secret in return for promises of confidentiality that could be freely and lawfully breached. Moreover, even if he guesses correctly that his information is unpatentable and therefore opts for trade secret protection, he will (under the rules of partial preemption proposed in Part II, *supra*) likely be forced to litigate the patentability issue in any trade secret action, a heavy additional burden that will severely lessen the benefit of even the portion of trade secret law that remains unpreempted.

These clearly foreseeable results argue against preemption of state trade secret law, as does the presumption in favor of the validity of all state laws. The conclusion of preemption should be rejected, therefore, unless there are strong considerations that impel it. We shall argue that there are not.

B. STATE TRADE SECRET LAW HAS NOT BEEN SHOWN TO INTERFERE WITH FEDERAL PATENT POLICY

The presumption of the validity of state laws is particularly strong where the state law in question has for many decades existed side by side with the federal law which is for the first time said to preempt it, not expressly but by implication. In such cases the showing that the state law interferes with federal policy should be solid if not compelling. There is no such showing in this case.

The point becomes clear if one examines the concept of "interference" as it is used here. The argument for preemption notes that federal patent policy offers a 17-year monopoly in return for disclosure of the invention. State trade secret law is claimed to undermine

the federal policy by offering inventors an alternative mode of protection so that some inventions will not be disclosed to the Patent Office. If the diversion is "significant," preemption follows. If there is "a mere possibility of inconvenience," preemption does not follow. Preemption, it is then concluded, is called for here.

There are two major flaws in this argument. The first is in the failure to establish that it is federal policy to insist upon the exchange of disclosure for the 17-year monopoly rather than simply to offer the exchange. The second, if the first were surmounted, is the failure to establish that there is, in fact, a "significant" diversion of patentable inventions from patent protection to trade secret protection.

The argument that the patent law evidences insistence upon the exchange of information for the monopoly, rather than a mere offer of an exchange, rests essentially upon the existence of the statute and upon statutory and judicial disfavor toward inventors who practice their inventions in secret and then belatedly apply for a patent monopoly. The bare existence of the statute, however, may obviously be explained on either hypothesis. The statutory and judicial rule of disfavor merely requires an inventor to opt for one form of protection or the other rather than seek to cumulate them. That this rule represents hostility to the tactic of adding to the 17-year patent monopoly rather than disfavor of state trade secret laws may be seen from the fact that the rule applies whether or not the inventor has or could have availed himself of any state protection for his secret.

The opposite inference, that the patent laws offer but do not insist upon the exchange, is better founded. Patent law and trade secret law have co-existed for many decades and Congress has never suggested that the effect was to undermine patent policy. To the contrary, Congress has, in a number of other statutes, recognized the existence of trade secret protection and afforded federal protection for information supplied to federal agencies.[20] Surely, if confidentiality of technical information conflicted with a policy of Congress, then compelled regulatory disclosures would be a logical point at which to enforce the policy. At the very least, Congress would not affirmatively protect secrets whose existence undercut its own policy. And, no matter what rationalizations are offered to explain away congressional solicitude for trade secrets, the stubborn fact remains that Congress has repeatedly demonstrated full awareness of the trade secret system and has never, in any particular, indicated any disapproval of it. That fact alone would seem virtually to preclude a finding of implied preemption of that system by Congress.

That should be an end of the matter, but if we grant, *arguendo,* that there exists, nevertheless, a federal policy of insisting upon the exchange of a monopoly for disclosure, the contention that there is, in fact, a significant interference with that policy fares no better. The conclusion of "significant" interference necessarily rests upon a judgment as to the amount of diversion that should be considered excessive as well as an em-

[20] See Pet. 13, n. 5.

pirical determination of how much diversion in fact exists.

Unfortunately for the argument in favor of preemption, the record of this case does not contain information that would permit a determination of the relative number of cases in which inventors are diverted from the patent system by the availability of state protection for trade secrets. Those within the government who favor preemption attempt to make up for this lack of factual material by offering two other bases for judgment. First, as a matter of inference, it is said to seem likely that more business organizations would apply for patents if they faced the prospect that their employees could, free of legal sanction, appropriate the firm's non-patented technology to their own use. Second, practitioners in various writings have reported that firms do in fact from time to time choose secrecy over patent protection.[21]

The argument from common-sense plausibility fails because it gives no idea of the crucial issue: the order of magnitude of the supposed diversion. That factual inquiry is particularly complicated because the crucial issue for the preemption decision is the extent to which state law protection causes firms to

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[21] Frost, *Patent Rights and the Stimulation of Technical Change*, *Patents and Progress* (Anderson, Terpstra, and Shapiro ed.) 61, 67–68; Oppenheim & Weston, *Unfair Trade Practices* 265–267; Milgrim, *Trade Secret Protection and Licensing—A True Alternative*, 4 Pat. L. Rev. 375 (1972); Orenbuck, *Trade Secrets and the Patent Laws*, 52 J. Pat. Off. Soc. 628, 665 (1970). Frost, *supra*, at 68, states that trade secret protection has already supplanted the patent system in a number of fields of technology (*e.g.*, plastic compositions, alloys, photographic emulsion manufacture).

rely on secrecy, not the extent to which they do in fact rely on secrecy. Even absent protective state law, some firms would be likely to choose secrecy over patent protection and disclosure. The question is the size of the increment of diversion due to state law that provides injunctions against persons who obtain the secret by a breach of obligation. An additional complication in arriving at a reliable factual estimate is that many persons who rely upon state law did not have the option of using patent protection, since their secrets, though valuable, were not patentable. This means that gross observations of the numbers of firms using state protection tell little about the numbers that were diverted from the patent system.

The argument that preemption is appropriate is, therefore, unduly weak and speculative in its assumptions both about the policy of the patent statute and about the actual impact of state laws upon that policy. Those assumptions do not begin to approach the degree of certitude that should be required when it is proposed to destroy an ancient and well-established body of state law by mere implication from the existence of a federal statute. The questions here are empirical and legislative and hence better suited to the factual investigations and policy judgments of Congress. The fact that Congress is clearly aware of trade secret law and has taken no action to disturb it strongly suggests that the asserted disruptive effect upon patent policy does not exist.

Here, even more clearly than in *Florida Lime & Avocado Growers* v. *Paul*, 373 U.S. 132, 141, "there is

neither such actual conflict between the two schemes of regulation that both cannot stand in the same area, nor evidence of a congressional design to preempt the field." Instead, there are two bodies of law that have coexisted for decades without previous suggestion of conflict and such evidence of congressional design as exists weighs against preemption.

Given the weakness of the argument for preemption by implication—which is essentially an argument that Congress would have outlawed state trade secret laws if it had thought about them—it would be improper at this late date to destroy the commercial interests and rooted expectations that have grown up in reliance upon this body of established doctrine.

C. PREEMPTION COULD NOT BE TOTAL AND WOULD RESULT IN AN UNWORKABLY COMPLICATED BODY OF LAW

We do not understand anyone to suggest that federal law preempts all state trade secret protection, and, indeed, total destruction of trade secret protection is clearly unwarranted. State law often protects commercial information such as customer lists, methods of conducting business, and technological innovations that are, for one reason or another, unpatentable, and these, presumably, would remain protectable under the harshest preemption doctrine.

Partial preemption would, if decreed, result in making state trade secret law unworkably complicated. The view within the government set out in Part II, *supra,* of this brief argues that preemption is required because of the patent laws only if a secret would have been patentable under the standards of 35 U.S.C. 101, 102, and 103. The holder of a patentable

trade secret, however, may still prevail under state law if he can show that he elected to rely on trade secret rather than patent protection in a reasonable, good faith belief that his secret was unpatentable. The first result of this position would be to complicate trials in trade secret cases enormously. The initial stage would be a patent litigation with the party resisting relief trying to establish that a valid patent could have been obtained had one been sought and the party claiming the secret seeking to prove the invalidity of that hypothetical patent. If the secret was held previously patentable, the trial would move on to the issue of the secret owner's reasonable, good faith belief as to patentability at the relevant date in the past. A theory of preemption that requires state courts to try not merely issues of state trade secret law but the issues appropriate to federal patent litigation, plus the reasons for not seeking a patent, creates so much awkwardness and complexity that it ought certainly to be eschewed unless its rationale is so compelling as to be unavoidable.[22]

To this patent preemption theory is added the further complications of a preemption asserted to flow from "national competition policy." We will suggest later that there is no reason for the Court to enter upon that topic in this case. We point out

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[22] While under *Lear, Inc.* v. *Adkins*, *supra*, state courts are now required to decide issues of patentability in suits to enforce patent licenses, the federal question of patentability in such cases is central to the issue of whether a federally conferred monopoly should be judicially enforced and is presented without the overlay of complexities that would be involved here.

here merely that the scheme proposed would lead to additional trial complications. If the person seeking to protect his secret established to the satisfaction of the court that it would have been unpatentable at the time it was learned, he would have to prove also that the secret was novel but obvious. If it was not novel, then it was in the "public domain" and unprotectable. Should he survive that test, the secret owner would have to litigate the issue of how long it might take someone else to reinvent his secret in order to determine the length of the proper injunction. He would likely have a poor time on that issue, having just convinced the court that his secret was unpatentable because obvious.

This is, apparently, not a field in which federal preemption operates on a rationale that simply ousts state law and thereby simplifies matters. Rather, preemption on the rationales available would enormously complicate trials. In many, perhaps most, cases the result would be to make the protection of trade secrets so expensive that the cost of enforcement would effectively foreclose resort to state law even when the rationale of federal preemption did not.

D. STATE TRADE SECRET LAW IS NOT PREEMPTED BY "NATIONAL COMPETITION POLICY"

The general concept of "national competition policy" has too little definition to provide a source of preemption. The aspect of that policy relevant here would appear to be the Sherman Act. In a field as diverse as trade secret law, involving the enforcement of many different kinds of agreements under

widely differing circumstances, it is difficult to see how the competitive policy of the Act could be said to preempt any entire category of law.

The Sherman Act is typically applied on a case-by-case basis, striking down or preserving arrangements according to their perceived impact upon competition and consumer welfare. It is sometimes possible, as in the case of price-fixing between competitors, to state a general rule of illegality at once, but usually the courts proceed case-by-case until a general pattern becomes clear and experience permits the formulation of a general rule.

We have pointed out that the sharing of a trade secret in order to permit its use on an economically practical scale is a phenomenon akin to the joining of men possessing different talents and assets into a partnership or a corporation. As such, trade secret agreements are obviously capable of either creating socially valuable efficiencies or of suppressing competition illegally. That is a quality they share with partnerships, corporations, and mergers because these are all forms of economic integration, necessary to production, and hence not susceptible to *per se* condemnation as price-fixing conspiracies are. To find preemption on Sherman Act grounds would be, improperly we believe, to fashion a rule of *per se* illegality for an entire class of agreements not economically distinguishable from partnerships.

There is no evidence in this record that the mere existence of state trade secret remedies has an anti-competitive effect. Even if one ignores consumer welfare and asks only about the effect of the law upon

small firms, no single answer may be given. An established firm may invoke trade secret remedies to prevent its employees from beginning a new firm using the information disclosed to them in the course of their employment. That hardly seems a design to monopolize, however, since the information would have been unavailable altogether if the promise against separate use had not been given. It is equally true, moreover, that some small firms may survive only because they possess unique information and know-how. In the absence of state trade secret protection, larger rivals could freely hire away an employee and the information. It is simply not possible to determine from the record in this case the effect of state trade secret law on the competitive process.

It is of course possible that employment covenants, state trade secret law, and other devices could be used illegally to monopolize a line of commerce or restrain trade. Upon appropriate proof, there would be a violation of the Sherman Act. But no such showing has been made here. Kewanee has three competitors, and the record shows that its market position in the sale of the single product involved has resulted in part from continuous technological advances resulting from its own research (Pet. App. A2). These advances have been made by Kewanee's own personnel. There has been no effort to acquire the technology of others or to prevent competitors from obtaining access to technology publicly available.

The arguments already advanced in opposition to patent preemption—the absence of significant interference, the coexistence of the two bodies of law for

many years, Congress' knowledge and apparent acceptance of the state laws, the interests and justified expectations that have grown up—all militate as well against a partial preemption of state trade secret law by the Sherman Act.

CONCLUSION

For the foregoing reasons the decision of the Court of Appeals for the Sixth Circuit should be reversed and the judgment of the district court reinstated.

Respectfully submitted.

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